"Reflections on the CAP from a long-run perspective"
Brussels, 26 February 2009

EU agricultural policy in a global context

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Reflections on the EU agricultural policy in a global context *from a long run perspective: what implications for the CAP?*

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the plan

reflections, *from a long run perspective,* on

- **the *key drivers* of the road ahead**
- **the implications for EU policies for agriculture and rural development**

the main key drivers of the future ahead

1. Globalization

globalization

"the progressive, rapid increase of the spatial size of the potential market for any given good"

globalization

- → trade will keep expanding at a fast pace
- → increased price competition -- for all products, domestically as well as internationally

(less competitive farm and food industry segments producing relatively undifferentiated products will be driven out of the market)

- → converging (and more diversified) food consumption patterns
- → diffusion of "*global products*"

(scale economies, increased industry concentration; higher safety risks?)

…but, at the same time,

→ increased demand for "quality" products, i.e. products which are differentiated because of specific *product* or *process* quality attributes which (certain) consumers recognize and are willing to pay for

(opportunities for agricultural and agro-food segments able (a) to produce differentiated quality products and (b) to market them globally)

1. Globalization
2. Increased international competition as a result of trade policy changes

multilateral trade negotiations, what to expect?

- *Yes!* …by 2030 there will be an agreement concluding the DDA round

  the negotiations and the agreement will not effect developments in EU policies for agricultural and rural development

- another round by 2030?

→ increased market access on MFN basis

→ the WTO framework will be strengthened

changes in EU trade policies

deepening **and *widening* of EU trade preferences in agro-food products**

- the *Economic Partnership Agreements* with ACP countries
- EU enlargement to the Balkans, Turkey (?), …
- the *European Neighborhood Policy,* economic integration in the Mediterranean and along the Eastern border
- bilateral and regional trade agreements currently being negotiated
- *increased capacity of partner countries to exploit potential benefits of trade preferences*

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trade policy changes & market competition

→ further "market re-orientation" of EU prices of agro-food products

i.e. lower and more volatile domestic prices

the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth

economic growth

- per capita incomes expected to grow everywhere, although at different rates
- per capita food consumption in developing countries will increase
- per capita food expenditure will increase
- composition of food consumption will change
- demand for quality differentiated food products will expand
- demand for food *ready-to-be-consumed* and *consumed away-from-home* will expand
- in developed countries demand for environmental protection and public goods and services will increase

economic growth

→ trade in agro-food products will continue to increase; south-south, south-north and north-south trade will all expand

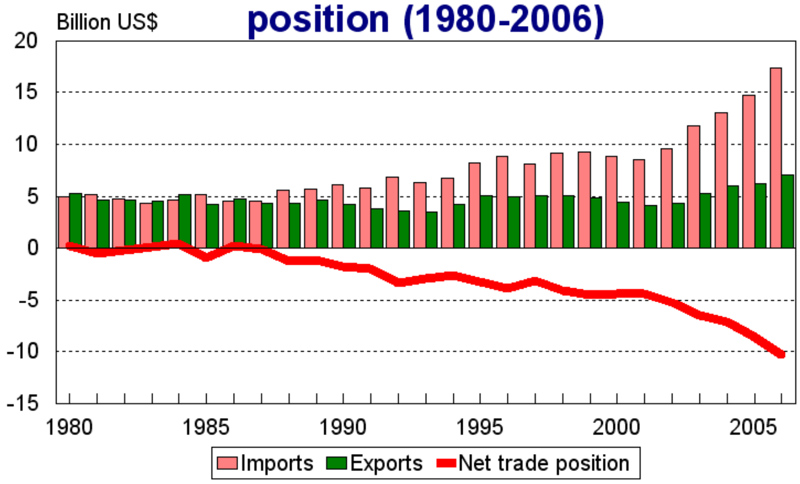
→ higher-value products will be a larger and growing share of food consumption

→ quality differentiated products will be a larger and growing share of food consumed by richer consumers

will malnutrition decline?

…looking to the past to understand what may lie ahead

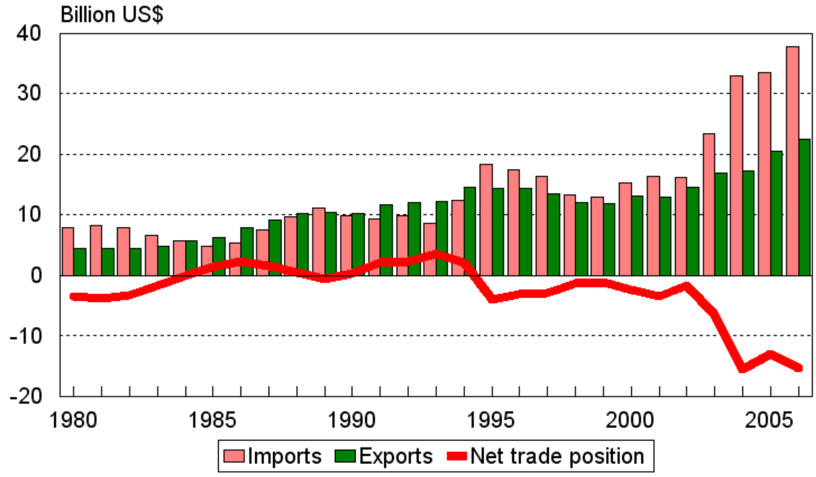
Least Developed Countries. Agricultural products: imports, exports and net trade position (1980-2006)



Source: Faostat.

…looking to the past to understand what may lie ahead

China. Agricultural products: imports, exports and net trade position (1980-2006)



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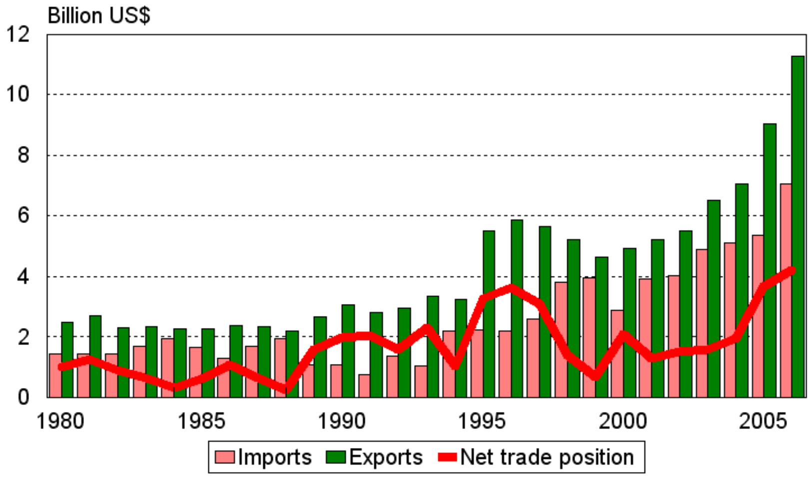
…looking to the past to understand what may lie ahead

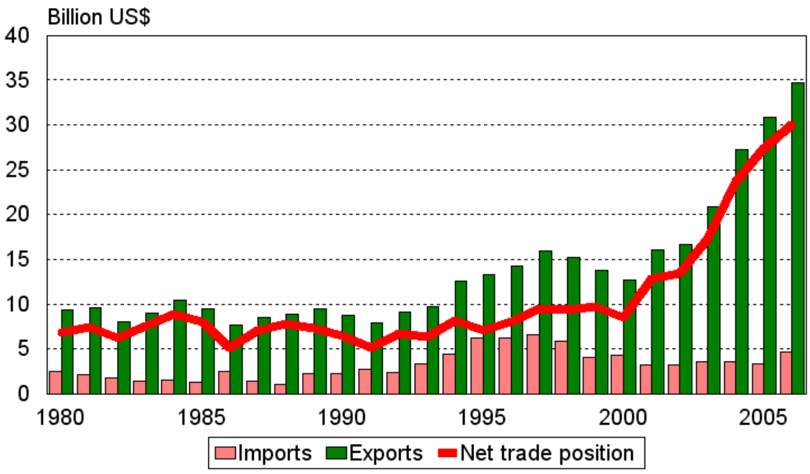
India. Agricultural products: imports, exports and net trade position (1980-2006)



Source: Faostat.

…looking to the past to understand what may lie ahead

Brazil. Agricultural products: imports, exports and net trade position (1980-2006)



Source: Faostat.

the main key drivers of the road ahead

1. **Globalization**
2. **Increased international competition as a result of trade policy changes**
3. **Economic growth**
4. **Demographic changes**

demographic changes

- **world population is expected to grow at a still robust, though declining, rate**

  → **food consumption will increase**

- **the age structure of the population will change (in opposite directions in high and low rate of growth countries)**

  → **composition of food consumption will change**

the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes

increased competition (non policy-related changes)

changes in the relative competitiveness of agro-food systems

- structural adjustment
- production and adoption of innovations
- competitiveness and institutional strengthening

where to look to?

...to the more developed and more dynamic components of the developing world and transition economies (more than least developed and other developed countries)

the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes
6. Further structural changes in the food retail industry

changes in the food retail industry

- more and more food bought in large stores, everywhere
- increase in the (*already very high*) concentration of the food retail sector
- more, and more stringent, food safety and quality standards set by the retail sector
- potential suppliers required to be able to perform an increasing number of tasks: from delivering a basket of food products, in large volumes, over an extended period of time throughout the year, to providing logistical services

changes in the food retail industry

→ **imbalance of power distribution along the food chain; increasingly challenging minimum requirements to be satisfied by the agro-food firms in order to be considered by the retail sector as potential suppliers**

(need for adjustments at farm level and for horizontal and vertical coordination or integration)

(a barrier to trade: some excluded, some protected from low-cost competition …but nevertheless subject to the market power exerted by the retail sector)

the main key drivers of the road ahead

1. **Globalization**
2. **Increased international competition as a result of trade policy changes**
3. **Economic growth**
4. **Demographic changes**
5. **Increased international competition as a result of non policy-related changes**
6. **Further structural changes in the food retail industry**
7. **Demand for non-food agricultural products**

the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes
6. Further structural changes in the food retail industry
7. Demand for non-food agricultural products
8. Malnutrition will decline, but will not disappear

food security still an issue

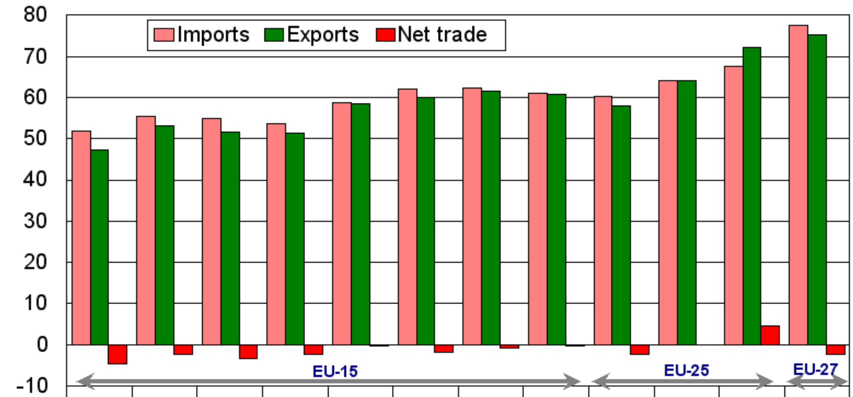
- according to FAO, and without taking into consideration the effects of the financial crisis, next year 680 million people will be chronically undernourished, 10% of world population
- but world food supply in 2010 will be equivalent to 2900 calories per capita per day (2500 are needed for a healthy life, 1900 is the threshold of undernourishment)
- the answer is not more food, the answer is poverty reduction

the global context: the EU, a major global player

- **in global agro-food markets**
  #2 exporter in 2007, 9.6% of the world market
  #1 importer, 12.5%

…looking to the past to understand what may lie ahead

European Union. Agricultural products. Imports, Exports and Net trade position (excluding intra EU trade) (96-03: EU-15; 04-06: EU-25; 07 EU-27; Billion euro)

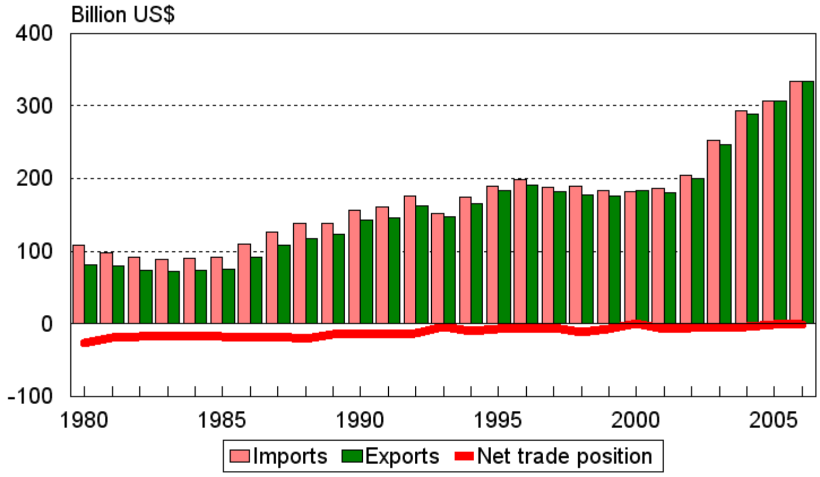


	1996				2000				2004			2007
Imports	51,872	55,307	54,87	53,616	58,64	62,028	62,256	61,014	60,35	64,018	67,738	77,515
Exports	47,319	53,035	51,603	51,23	58,426	60,068	61,547	60,632	58,059	63,986	72,265	75,251
Net trade	-4,553	-2,272	-3,267	-2,386	-0,214	-1,96	-0,709	-0,382	-2,291	-0,032	4,527	-2,264

Source: Eurostat.

…looking to the past to understand what may lie ahead

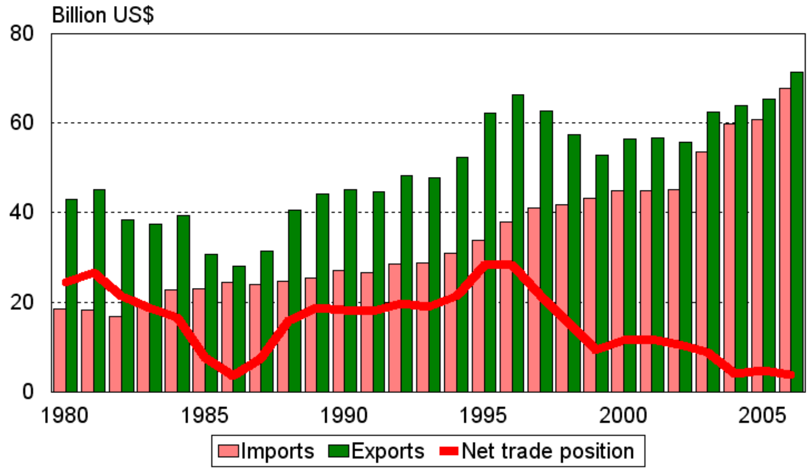
European Union. Agricultural products: imports, exports and net trade position (1980-2006)



Source: Faostat.

…looking to the past to understand what may lie ahead

Usa. Agricultural products: imports, exports and net trade position (1980-2006)



Source: Faostat.

the global context: the EU, a major global player

- in global agro-food markets
  #2 exporter in 2007, 9.6% of the world market
  #1 importer, 12.5%
- in global markets
  #1 merchandise exporter, 16.4%
  #2 importer, 18.4%
- in the international relations playing field

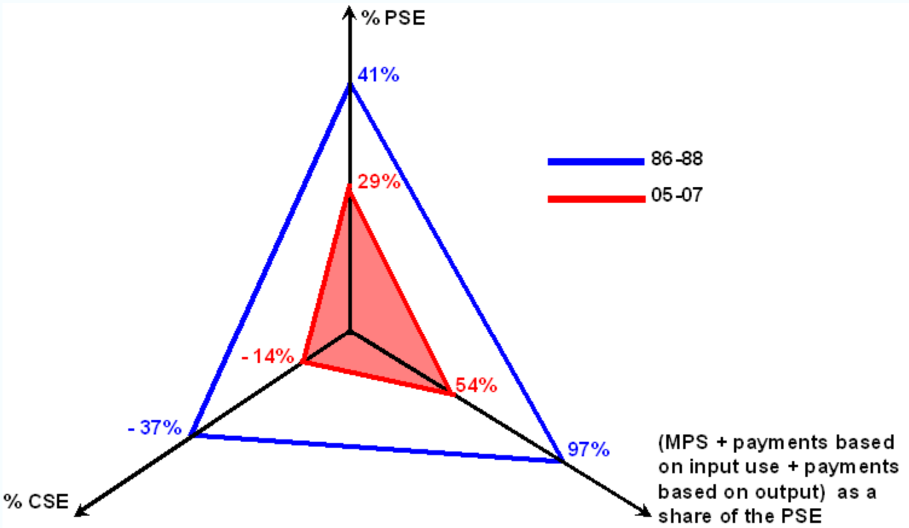
…and *a* ***responsible*** *global player*

key implications of the global context in 2030

- greatly expanded trade, larger and more integrated markets
- high-value products will constitute a larger share of food expenditure
- increased price competition (on domestic as well as international markets) from systems able to produce at *low costs* undifferentiated products (commodities) or products with a low level of differentiation (i.e. with a relatively high degree of substitutability with “similar” products)
- increased market opportunities for quality differentiated products
- increased farm income volatility

what are the implications for the CAP?

…looking to the past to understand what may lie ahead



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expected further reforms of the CAP

…more of the same:

- fewer financial resources for the CAP
- regionalization of direct payments?
- stronger and more effectively enforced cross-compliance conditions *(…or the other way around?)*
- more voluntary schemes to support production of non-market, socially valuable, good and services
- a more uniform CAP in the EU-15 and EU-12
- more space for national choices in policy implementation

- **plus, possibly, something a little different from what we have already seen:**
  - **new (genuine) safety net policy instruments**
  - **partial (re)nationalization?**

is this what is needed to face the new challenges from the evolving global context?

what is missing?

→ **more (and more effective) policies aimed at strengthening the *competitiveness* of EU agri-food systems, domestically and abroad**

three priorities:

→ the ***economy of scale*** competitive wedge

→ the ***quality-based*** competitive wedge

→ the ***technology-based*** competitive wedge

strengthening the competitive wedge

the ***economy of scale*** competitive wedge

(for large components of certain agricultures the issue of the *structural adjustment* of farms is a prerequisite for competitiveness)

the farm structure adjustment issue

European Union 15. Average farm size (UAA) in 1987 and 2005 (ha; % changes)

	1987	2005	% change 05-87
Austria	...	19,1	
Belgium	17,3	27,1	*56,5*
Denmark	32,5	53,6	*65,0*
Finland	13,2	32,1	*142,9*
France	30,7	48,7	*58,5*
Germany	17,6	43,7	*148,2*
Greece	5,3	**4,8**	***-9,8***
Ireland	22,7	31,8	*40,1*
Italy	7,7	**7,4**	***-4,5***
Luxembourg	33,2	53,8	*61,9*
Netherlands	17,2	23,9	*39,2*
Portugal	8,3	**11,4**	*36,9*
Spain	16	23,0	*43,9*
Sweden	33,5	42,1	*25,7*
United Kingdom	68,9	55,7	*-19,2*

the farm structure adjustment issue

European Union 12. Average farm size (UAA) in 2005 (ha)

	2005
Bulgaria	5,1
Check Republic	84,1
Cyprus	3,4
Estonia	29,9
Hungary	6,0
Latvia	13,2
Lituania	11,0
Malta	0,9
Poland	6,0
Romania	3,3
Slovak Republic	27,4
Slovenia	6,3
EU27	11,9
EU25	16,0
EU15	21,4

the *quality-based* competitive wedge

quality → qualit<u>ies</u> (…consumer driven)

including: origin, food safety standards, organic, animal welfare standards, no GMOs, …

current EU "*product quality policy*" inadequate

...the *Communication on agricultural product quality policy* in May

an agro-food product quality policy articulated in two, integrated, components:

- a regulatory component, to effectively
  (a) define quality characteristics, and
  (b) design controls to assure consumers that what they buy really is what they are told they are buying
- a policy action supporting the structural investments needed to help farms and firms to effectively exploit the potential value of the quality characteristics of their products

the *technology-based* competitive wedge

- product innovation
- innovation in the production process
- innovation in the services sold with the product
- from farm competitiveness to chain/territory competitiveness

the competitiveness of European agro-food systems – regardless of their strategic market positioning (…undifferentiated/highly differentiated product markets) – will crucially depend, <u>more than in the past or today</u>, on maintaining a technology-based competitive wedge

the technology-based competitive wedge

maintaining this competitive wedge will depend on the capacity to continuously produce and rapidly adopt technological innovations related to both reducing costs and producing/improving product quality attributes

this implies the production and adoption of appropriate technologies in a very wide spectrum of areas, including product and process innovations, innovations in post-harvest technologies, processing, marketing, packaging, transportation and other logistic services

the technology-based competitive wedge

maintaining and strengthening a "*technology-based*" competitive wedge requires much more than researchers producing innovations…

competitiveness will depend as much as on producing innovations as on ensuring a quick and smooth adoption process

→ the need to develop *integrated innovation policy plans* which extend over research, development, extension and adoption activities in a single plan of action conclusions

looking at the CAP in a global context from a long run perspective:

- → the current CAP appears inadequate to face the challenges ahead
- → the same is true for a CAP after incorporating the reforms which, based on recent trends, are likely to occur
- → new policy instruments are needed to help the farms with the potential to compete on the market

Grazie!